COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 4, 1999

APPLICATION OF

NATIONAL COUNCIL ON COMPENSATION INSURANCE — CASE NO. INS980116

For approval of advisory loss costs and revision of assigned risk workers' compensation insurance rates

FINAL ORDER

The application herein was heard by the Commission beginning on November 17, 1998, and ending on November 18, 1998. The National Council on Compensation Insurance (the "Applicant"), the Bureau of Insurance, the Office of the Attorney General, intervenors Washington Construction Employers Association, and the Iron Workers Employers Association, were represented by their counsel.

NOW, ON THIS DAY, having considered the record herein, and the law applicable hereto, THE COMMISSION is of the opinion, finds, and orders:

(1) That, based on the calculation of two policy years of loss and premium experience for the voluntary market, the factor of 0.950 proposed by the Applicant to adjust for experience, trend, and benefits is excessive and, in lieu thereof, a factor of 0.908 shall be utilized, resulting from the use of the "paid plus case" loss experience methodology, loss development to an 8th report based on voluntary market experience using five year dollar weighted

averages, loss development from an 8th report to a 17th report based on the combined experience for both the voluntary market and assigned risk market using five year dollar weighted averages, an indemnity tail factor and a medical tail factor based on the Applicant's procedures;

(2) That, based on the calculation of five policy years of loss and premium experience for the assigned risk market, the factor of 0.981 proposed by the Applicant to adjust for experience, trend, and benefits is excessive and, in lieu thereof, a factor of 0.921 shall be utilized, resulting from the use of the "paid plus case" loss experience methodology, loss development to an 8th report based on assigned risk market experience using five year dollar weighted averages, loss development from an 8th report to a 17th report based on the combined experience for both the voluntary market and assigned risk market using five year dollar weighted averages, an indemnity tail factor and a medical tail factor based on the Applicant's procedures;

(3) That the annual indemnity trends and the annual medical trends proposed by the Applicant are excessive; and, in lieu thereof, an annual indemnity trend of –5.8% and an annual medical trend of –2.2% shall be utilized, based on the combined experience for both the voluntary market and assigned risk market and the trending methodology previously approved by the Commission;

(4) That the use of econometric trend be rejected for these proceedings. Should the Applicant propose to use econometric trend models in the future, the Applicant should work with the Bureau and any other parties interested therein to develop such models;

(5) That the factor of 1.009 for the change in indemnity benefits proposed by the Applicant and the factor of 1.000 for the change in medical benefits proposed by the Applicant are accepted and shall be utilized;

(6) That the change in the provision for loss adjustment expenses for the voluntary market from 14.7 percent of expected loss to 15.5 percent of expected loss proposed by the Applicant is excessive; and, in lieu thereof, a provision for loss adjustment expense of 14.4 percent of expected loss shall be utilized, resulting in a factor of 0.997 to adjust voluntary loss costs for the change in loss adjustment expense;

(7) That the offset for the premium credits expected to result from the Virginia Contractors Classifications Premium Adjustment Program ("VCCPAP") of 0.75% for the Contracting Group shall be continued until further order of the Commission; provided, however, that the Applicant shall provide relevant data for supporting the continued use of this offset with its next loss costs and assigned risk application;

(8) That the calculation of the change to voluntary market loss costs for industrial classes expressed as a percentage shall be: experience, trend, and benefits (9.2 percent decrease), loss adjustment expense (0.3 percent decrease), resulting in a total change in voluntary market loss costs of a 9.5 percent decrease rather than the 4.3 percent decrease proposed by the Applicant;

(9) That the factor of 1.020 for the change in expenses (loss adjustment, taxes, general, production, administrative and other)

for the assigned risk market proposed by the Applicant shall be utilized;

(10) That the change in profit and contingencies provision for the assigned risk market from negative 7.843 percent to negative 3.0 percent representing a premium increase of 6.4 percent proposed by the Applicant produces excessive premiums; and, in lieu thereof, the profit and contingencies provision shall be changed to negative 6.77 percent representing an increase of 1.4 percent in premiums resulting from a payment pattern of 35 years, a rate of return of 11.41 percent (which is based on an 85/15 equity-to-debt ratio, a 12.00 percent cost of common equity, and an 8.09 percent cost of long term debt), a 7.49 percent pre-tax return on invested assets before consideration of investment expenses, a 5.61 percent post-tax return on invested assets before consideration of investment expenses, a 5.40 percent post-tax return on invested assets after consideration of investment expenses, the claims and expense payment schedule proposed by the Applicant, a provision of 2.5 percent for uncollectible premium, and a reserve-to-surplus ratio of 2.66 considering only loss and loss adjustment expense reserves;

(11) That the increase in the expense constant from $180 to $205 proposed by the Applicant shall be utilized; and that the offset to the assigned risk rates for the increase in the expense constant shall be a rate decrease of 0.9 percent. If the Applicant proposes to revise the expense constant in the future, the Applicant shall provide relevant data and a sound actuarial analysis for determining such an expense constant rather than trending the possibly outdated 1991 expense study data now in use;

(12) That the calculation of the assigned risk market rate changes for industrial classes expressed as a percentage shall be: experience, trend, and benefits (7.9 percent decrease), expenses, taxes and loss adjustment expense (2.0 percent increase), profit and contingency (1.4 percent increase), offset for the expense constant (0.9 percent decrease) resulting in a 5.6 percent decrease in assigned risk market rates, rather than the 5.5 percent increase proposed by the Applicant;

(13) That the proposed increase of 19.0 percent for voluntary market loss costs for "F" classifications is excessive and, in lieu thereof, an increase of 8.9 percent is hereby approved;

(14) That the proposed 30.2 percent rate increase for assigned risk market rates for "F" classifications is excessive and, in lieu thereof, an increase of 14.7 percent is hereby approved;

(15) That, as respects the occupational disease component of coal mine classifications voluntary loss costs and assigned risk rates, the changes proposed by the Applicant are hereby approved. That, as respects the traumatic component of coal mine classifications, the changes proposed by the Applicant are excessive; and, thereby, the combined voluntary loss costs and assigned risk rates for coal classifications proposed by the Applicant are excessive; and, in lieu thereof, the following be adopted:

Underground Mines

	Voluntary Loss Costs	Assigned Risk Rates
Traumatic	$19.42	$29.23
Occupational Disease	2.78	4.56
Total	$22.20	$33.79

Surface Mines

	Voluntary Loss Costs	Assigned Risk Rates
Traumatic	$ 4.01	$ 5.58
Occupational Disease	0.96	1.57
Total	$ 4.97	$ 7.15

(16) That, in subsequent applications, the Applicant shall include traumatic coal mine indications based on the "industrial methodology";

(17) That, based on issues brought to the attention of the Commission during this proceeding, prior to its next application, the Applicant shall research and report to the Commission on the number of Virginia classifications affected by possible class rate-making inequities and the extent to which any affected classifications are impacted;

(18) That the Applicant and any other person participating in future voluntary market loss costs and assigned risk rate applications, when proposing methodologies or data sources that are different from the methodologies or data sources upon which current loss costs and/or rates are based, shall be required to disclose the loss cost or rate effect of the change using both the methodology it is proposing to replace as well as using the newly proposed methodology;

(19) That, except as ordered herein, the proposed revision to loss costs, rates, minimum premiums, rules, regulations, and procedures for writing workers compensation insurance in this Commonwealth that have been filed by the Applicant herein on behalf of its members and subscribers shall be, and they are hereby, approved for use in this Commonwealth effective April 1, 1999; and

(20) That the Applicant shall, as soon as practicable or no later than thirty days from the date hereof, promulgate its revised individual manual code voluntary loss costs, assigned risk rates, minimum premiums, and rating values, rates and multiples.